Largest Swiss Bank UBS Takes Over Credit Suisse

Will Takeover Of Credit Suisse Help Prevent Global Banking Turmoil?

Some of the biggest central banks in the world banded together to stop the development of a banking crisis as UBS Group AG (UBSG.S) was persuaded by Swiss officials to acquire rival Credit Suisse Group AG (CSGN.S) in a historic merger. The 167-year-old Credit Suisse will be purchased by UBS for 3 billion Swiss francs ($3.23 billion), and UBS will also take on up to $5.4 billion in losses. The transaction is supported by a sizable Swiss guarantee and is anticipated to finish by the end of 2023. The fact that this is the third significant bank to fail in just 10 days, though, is even more astonishing. The end of Credit Suisse's nearly 167-year rule would be one of the largest banking industry developments since the 2008 financial crisis. The sudden demise of Silicon Valley Bank earlier this month sparked a financial maelstrom that would eventually assume a new, global scope.

What is Credit Suisse?

The 167-year-old Credit Suisse, also regarded as a "globally systemically significant bank," was first established as a bank for the ultra-wealthy elite. The prominent investment bank Credit Suisse is based in Switzerland. It has existed since 1856. One of the nation's globally systemically important banks (G-Sib) has been recognised by the Swiss central bank.

What's wrong with Credit Suisse, exactly?

The Greensill Issue : Being the largest non-bank supplier of supply chain financing, Greensill took out huge loans from investors outside the company, including Credit Suisse. In response, Credit Suisse persuaded its clients to make significant capital investments. Bank customers and Greensill's creditors both suffered when the company filed for bankruptcy.

Archegos Capital fiasco : Credit Suisse suffered a loss of 5.5 billion dollars as a result of the Archegos Capital Management investment fund's demise.

Loss of market value : Since the global financial crisis of 2008, Credit Suisse has been losing market value. A secular drop in the share price is being seen. The bank's financials went into negative territory in 2021 with a loss of $1.80 billion (163% less than in 2020).

Increasing cost of capital : Increased borrowing costs for the bank due to the rising cost of capital.

Credit default swaps (CDS) : An investment class that acts as protection against a company's default—rose to all-time highs.

Participation in scandals : The bank's balance sheet has been affected by scandals such as hiring private investigators to snoop on staff and swapping employment for business in Hong Kong. Additionally, it is said to have helped facilitate corrupt loans in Mozambique and money laundering for a criminal organisation in Bulgaria. There have been rumours that Credit Suisse is set to fail, much like the venerable American investment bank Lehman Brothers did in 2008.

What Impact Might the Credit Suisse Disaster Have on India?

Although a worldwide financial crisis is always a worry, the threat to the Indian banking system is not serious due to Credit Suisse's minimal activities in India. Analysts predict gentler revisions in the evaluation of counterparty risks, notably in the derivative market, given the importance of Credit Suisse to India's banking industry. The liquidity problems will be carefully monitored by the RBI. However, with both banks and non-banks possessing healthy equity and liquidity, the Indian banking system is likewise highly resilient.

What is going on with banks all across the world?

These bank failures can be viewed from two perspectives.

1). One is to examine each bank's specifics. When you do that, you'll discover that these banks (i.e., its management) are suffering as a result of either placing hazardous bets, disobeying prudential standards, engaging in open fraud, or a combination of these. Eventually, all of these errors hurt profitability and reduced investor trust.

2). The macro perspective is the second method to examine these collapses. The world economy has had a very long era of loose monetary policy (with many central banks printing large amounts of money and making credit available at interest rates close to 0 percent), followed by a sudden and extremely fast tightening of monetary policy (Read: a dramatic increase in interest rates globally as well as a decrease in the money supply).

What's coming up in Global Central Banks?

The European Central Bank opted to raise interest rates by 50 basis points last week despite the impending collapse of Credit Suisse. The US Fed is expected to release its assessment of monetary policy this week, on March 22. Most observers anticipated that the Fed would raise interest rates by another 50 basis points before the Silicon Valley Bank collapsed. That is as a result of American inflation not slowing down as quickly as the Fed desired. The past ten days' events, however, have thrown a spanner in the works. The Fed and other central banks are gravely concerned about the financial system becoming frozen and banks running out of money *due to unexpected runs, as evidenced by last night's actions. Raising interest rates under such circumstances could be viewed as extremely risky because it would result in higher borrowing costs. However, if the Fed takes a break from fighting inflation, the situation may get worse. Therefore, everything depends on how the Fed assesses the situation. The Fed may decide to continue on its path of monetary tightening and possibly raise interest rates by 25 basis points rather than 50 if it believes that the banking and financial system is essentially robust and that it can deal with one or two failing banks by providing them with liquidity support. It might choose to pause if it thinks the financial system is seriously in danger. In any case, the next several days should see additional turbulence, particularly in terms of how the stock market will act.*

The Way Forward Of UBS Takeover

With $5 trillion in invested assets, the acquisition strengthens UBS' position as the world's largest wealth manager and supports its expansion plans in the Americas and Asia. According to the sources, the government is drafting emergency steps to expedite the takeover and wants to submit legislation that will forego the customary six-week period of shareholder consultation with UBS in order to finalise the merger right away. Yet, nothing was still in the world. A bank that never really learned its lesson from the global financial crisis was overwhelmed by the end of cheap money, the turbulence in the global economy, and the lack of investor trust.